

Vol. I  
1956

**ECONOMIC COLD WAR**

by

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No. 2  
Jan. 11

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1205 Nineteenth Street, N.W.  
Washington

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## ECONOMIC COLD WAR

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THE BUDGET MESSAGE to be sent to Congress on Jan. 16 will contain detailed requests in support of the administration's already disclosed plan to seek a substantial increase in foreign aid appropriations. The purpose of the increase is, not to expand current outlays by an equivalent amount, but to fill the depleted foreign aid pipeline and make it possible to keep military and economic assistance flowing to other nations at approximately the present rate.

The administration's desire to keep foreign aid spending at present levels for a more or less indefinite period comes as a shock to members of Congress, who had expected a tapering-off of economic, if not military, assistance to countries abroad. However, President Eisenhower said in his State of the Union message, Jan. 5, that "We must sustain and fortify our mutual security program." Foreign aid recipients needed "assurance of continuity in economic assistance for development projects and programs which . . . require a period of years for planning and completion."

To assure continuity, the administration is asking not only for replenishment of the foreign aid pipeline but also for a grant of "limited authority to make longer-term commitments for assistance to such [development] projects." The latter request seems clearly to apply to projects like the high dam which Egypt is planning to build on the Nile at Aswan.

Present foreign aid policy is dictated by the shift to economic competition in the cold war between the free world and the Communist world. Eisenhower noted in his annual message that "conditions of poverty and unrest in less developed areas" had made the people of such areas "a special target of international Communism." Accordingly, there was need "to help them achieve the economic growth and stability necessary to preserve their independence against Communist threats and enticements."

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The Middle East and South Asia are currently the chief target areas. Soviet efforts at economic and political infiltration there have become of major concern to the United States and to Great Britain. How best to combat the Communist designs will be one of the principal subjects discussed when Prime Minister Eden comes to Washington at the end of January for conversations with the President.<sup>1</sup>

### **ESTIMATES FOR U. S. FOREIGN AID APPROPRIATIONS**

The present level of spending for military and economic aid is about \$4.2 billion a year. The administration proposes to raise this to approximately \$4.4 billion in the 1957 fiscal year. Under its plan, expenditures for military assistance will remain at the current level of \$2.5 billion, while expenditures for economic aid will be increased from \$1.7 billion in fiscal 1956 to \$1.9 billion in fiscal 1957.

To maintain spending at those rates, the administration will ask Congress to increase the next appropriation for foreign aid to a figure substantially above the amount made available last year—from \$2.7 billion to \$4.9 billion. Such a sizable increase is required, Secretary of State Dulles has explained, to replenish the backlog of funds needed to keep the pipeline supplied and to preserve the continuity of the foreign aid program.

For several years the funds appropriated for foreign aid have been considerably smaller than the amounts actually expended. The difference has been financed out of unexpended balances from prior appropriations. Although those balances are still relatively large, most of the carry-over funds have been committed to specific items already in the pipeline.<sup>2</sup> Administration officials say any further drain on the carry-over would be unwise at a time when continuity of foreign aid is essential to the attainment of fundamental foreign policy objectives.

The immediate objective is to put the United States in a position of sufficient flexibility to deal with new situations created by changes in Soviet tactics. Secretary Dulles said last month that the free world had entered "a new phase of

<sup>1</sup>It was reported from London, Jan. 5, following a Foreign Office conference with British envoys to Middle Eastern countries, that Eden would ask the United States to join in a coordinated economic development plan for the Middle East.

<sup>2</sup>On June 30, 1955, the carry-over amounted to about \$9.5 billion; it is expected to fall to about \$7.5 billion by June 30, 1956, with the bulk of the unexpended balance committed or obligated.

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the struggle between international Communism and freedom"—a phase in which economic competition apparently has superseded the violence and threats of violence which characterized the first postwar decade.<sup>3</sup>

Larger resources and greater flexibility will be needed in particular to carry out new tasks in the Middle East and Asia. Those areas, Dulles said, always have attracted Communist agitators and today are primary "targets of their guile." There is no need to "become panicky because Soviet Communism disports itself in this garb," the Secretary added, but there also is no cause for complacency.

The amount that can usefully be expended on foreign aid has provoked vigorous debate in the Executive Branch as well as in Congress. Within the Executive two schools of thought emerged during preparation of the budget. On one hand, a group of younger leaders contended that it would be absurd for the United States, with its great resources, to permit itself to be outdistanced by the Communists in the field of economic competition.<sup>4</sup> To meet the Soviet challenge, this group advocated a substantial increase in the present rate of spending, with greater emphasis on economic and technical assistance.

The second group has reflected the economy viewpoint of men like Treasury Secretary Humphrey, Under Secretary of State Hoover, Budget Director Hughes, and John B. Hollister, director of the International Cooperation Administration. While not questioning the need for continuing foreign aid, this group has held that there is a definite limit to the amount that can usefully be spent in underdeveloped areas, and that the present level of spending is adequate for any needs which can now be foreseen. The foreign aid budget, in the form finally approved for submission to Congress, represents a compromise between the two groups, with Secretary Dulles apparently leaning toward the position of the economy advocates.

#### **REACTIONS IN CONGRESS TO THE PROPOSED INCREASE**

Congressional leaders were taken by surprise when the administration made known its decision to seek a sharp

<sup>3</sup>Address before Illinois Manufacturers' Association, Chicago, Dec. 8, 1955.

<sup>4</sup>Administration leaders identified with this school include Vice President Nixon, Harold Stassen, former foreign aid director, and Nelson Rockefeller, who resigned Dec. 31 as special assistant to the President.

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increase in foreign aid funds. Leaders of both parties came away from a White House conference in mid-December under the impression that Congress would not be asked to appropriate much, if any, more than the \$2.7 billion voted last year. Most of the legislators seemed astonished to learn a week later that the amount to be requested might almost double that figure; many of them predicted a long and strenuous debate on the administration's proposals.

Chairman George (D-Ga.) of the Senate Foreign Relations Committee said, Jan. 7, that, while favoring reasonable appropriations for military aid, he was strongly opposed to "any increase in economic aid . . . to any part of the world." Sen. Hickenlooper (R-Ia.) thought the administration would have to "prove its case" before Congress would agree to any long-term program at the contemplated level.

Congress recently has been in the habit of paring down the President's annual requests for new funds for foreign aid, believing that the program should be gradually tapered off. The appropriations committees of both houses have kept a close watch on the carry-over funds, which they felt were more than sufficient to meet essential requirements not covered by new money during the tapering-off period. In each of the three full fiscal years since the Eisenhower administration came into office, new funds appropriated have been less than actual expenditures.

FOREIGN AID APPROPRIATIONS AND EXPENDITURES, 1950-1956  
(in millions of dollars)

Fiscal year	New funds appropriated	Actual expenditures
1950	\$5,173.2	\$3,488.7
1951	7,359.4	3,735.8
1952	7,282.3	4,532.5
1953	6,011.9	5,722.7
1954	4,724.0	4,872.3
1955	2,799.3	3,879.7
1956	2,703.0	4,200.0*

\* Estimated.

Congress has been less convinced of the need for economic and technical assistance to foreign countries than of the need for direct military aid. Last year the President asked for a total of \$1.8 billion for economic assistance, including a special fund of \$200 million for aid to free nations of Asia, but Congress appropriated only \$1.7 billion

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for economic aid and allowed only one-half of the amount requested for the special Asian fund. This year the administration wants \$1.9 billion for economic purposes, of which \$100 million would be allocated to the special fund for Asia.

At the opening of the 1956 session of Congress, members of both political parties were raising questions, not only about the administration's immediate budget requests, but also about the long-term objectives of the whole foreign aid program and the relative merits of military and economic assistance. Questions were being asked in particular about the effectiveness of American policies in the Middle East and Asia, where Communism was making a strong bid for the favor of underdeveloped countries and their peoples.

#### **SOVIET PROMISES OF AID FOR ASIA AND MIDDLE EAST**

At the turn of the year, Russia's Communist rulers were proclaiming important political and economic gains throughout South Asia and the Middle East. Premier Bulganin and Communist Party Secretary Khrushchev, reporting to the Supreme Soviet, Dec. 29, on the month-long tour of India, Burma, and Afghanistan from which they had recently returned, pointed to a series of notable successes for Soviet diplomacy and of corresponding setbacks for the "colonialists" of the West. Both spoke with satisfaction of the "mutually advantageous economic agreements" concluded between the Soviet Union and those Asian states, and of the "mutual understanding reached on principles of expanding cooperation."

Soviet promises of economic aid and technical assistance have been written into a number of bilateral agreements. Each of the agreements is based on the expectation that two-way trade between the Soviet Union and countries of South Asia will be expanded under terms and conditions to be worked out in future negotiations. The major accords include:

*U.S.S.R.—India:* A general trade agreement, to be completed by next April at the beginning of India's second five-year plan, calling for exchange of Soviet manufactured goods for Indian raw materials. India undertakes to purchase a million tons of Soviet steel and heavy equipment for production of oil and minerals; Russia agrees to purchase Indian raw materials equal in value to India's purchases in the Soviet Union. Under separate agreements Russia will furnish technicians for various construction projects in India, including a steel plant contracted for last year but not yet begun.

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*U.S.S.R.—Burma:* Russia undertakes to purchase Burma's surplus rice in exchange for purchases of Soviet industrial equipment.

*U.S.S.R.—Afghanistan:* Russia undertakes, in principle, to extend to Afghanistan a long-term credit of \$100 million to finance "an agreed program of works for the development of the Afghan economy in specific spheres" and to examine other mutually advantageous forms of economic and technical cooperation.

In addition to the economic accords, which remain to be implemented, the Soviet Union not long ago promoted the arms agreement under which Egypt is obtaining military equipment from Czechoslovakia in exchange for surplus Egyptian cotton.<sup>5</sup> Moscow has offered Egypt, in addition, Soviet technical and financial assistance for major development programs, including the great Aswan dam on the Nile, for which Egypt has been seeking technical and financial aid from the western powers.<sup>6</sup>

In wooing the less developed nations of Asia and the Middle East, the Soviet rulers have professed to welcome participation by all countries—including capitalistic countries—in programs to help newly independent states attain higher standards of living. At the same time, they have neglected no opportunity to discredit the motives and policies of the western powers by exploiting the still potent theme of colonialism and by openly attacking the western system of alliances.

Bulganin and Khrushchev made it clear on their Asian tour that the West was no longer the only source of outside aid open to countries like India, Burma, and Afghanistan. Russia, they said, was prepared to purchase surplus raw materials which the West was unwilling to buy, and the Soviet Union would provide technical assistance "without any conditions attached." In his report to the Supreme Soviet, Khrushchev declared that Moscow would fulfill all its promises of trade and aid without requiring any country to surrender its independence.

<sup>5</sup>See "International Arms Deals," *E.R.R.*, Vol. II 1955, pp. 791-808.

<sup>6</sup>See p. 39 for western offers to aid financing of the Aswan dam.

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## Economic Resources of East and of West

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DIVERGENT OPINIONS on economic capabilities of the Soviet Union have been expressed by qualified western observers. One body of opinion holds that the Soviet economy, despite significant gains in the industrial field, is still not able to compete with the West in producing the kinds of goods and services required for foreign economic development. Total output of goods and services is nearly three times as great in the United States alone as in the Soviet Union. Moreover, Russia continues to suffer acute shortages in many types of goods for which there is expanding demand at home.

Another body of opinion holds that comparative levels of production have little relevancy in determining the ability of the Russians to compete with the West in underdeveloped countries. The Soviet government is capable of maintaining a very substantial flow of trade and technical aid to non-Communist countries, provided that the Kremlin deems such transactions politically worth while. The Soviet rulers have more freedom of action than most western governments; they have power to determine, more or less arbitrarily, what products shall be considered "surplus" and power to make such use of those products as they see fit.

### SOVIET ASSETS AND WEAKNESSES IN TRADE DEALS

The Russian leaders themselves have made no claim of Soviet ability to outbid the West in unrestricted economic competition, or even in direct supply of economic aid to underdeveloped nations. When Khrushchev reported to the Supreme Soviet on Dec. 29, he conceded that Russia still had shortages of "certain goods" to satisfy domestic needs. He said the Soviet Union had "no spare capital" and was not interested in exporting capital. However, Bulganin and Khrushchev both emphasized that the Soviet economy was conducted according to plan, and that the government intended to produce as much as was needed for export to allied countries and for trade with other nations.

In the area of trade, the Soviet Union has attempted to exploit its economic assets to achieve both economic and political objectives. One of its chief assets has been its

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ability to provide markets for surplus products of other countries. For several years the Soviet foreign trade department has been offering to buy surplus cotton from Egypt, surplus rice from Burma, surplus rubber from Ceylon, surplus wheat from Argentina. In return, Russia has been able to supply industrial equipment, iron and steel, petroleum products, coal, and a variety of manufactured goods.

Soviet Russia's share in world trade has been small—less than 2 per cent of total world trade<sup>7</sup>—and the trade with non-Communist countries has been insignificant since 1949, when the United States and 14 other countries began to control the export of strategic goods to the Soviet bloc. However, commercial agreements negotiated during the past two years have begun to reopen the channels of East-West trade. The Soviet Union in 1954 signed new trade pacts with 16 countries of Western Europe, Latin America, Asia, and the Middle East, while the Communist bloc as a whole concluded more than 100 such agreements with 30 non-Communist countries.<sup>8</sup> There was a 15 per cent increase that year in the value of trade between the Soviet bloc and the free world.

The ability of the Soviet Union to meet in full the deliveries promised under the trade pacts is open to question. Russia has offered many commodities which, presumably, are in short supply: machine tools, power generating equipment, automotive equipment, and similar items. Actual delivery of such products to India, Burma, and several Latin American countries indicates that shortages have not deterred Soviet attempts to fulfill the contracts. But many recipient countries have complained of slow deliveries, and others have failed to place orders for the particular types of equipment offered.

A survey published by the *New York Times* in September 1955 showed that Soviet performance was running far behind promise in trade commitments to Latin American countries which had entered into agreements with the Soviet bloc. In 1954 Argentina received about 54 per cent of the goods promised for that year, while Brazil received only 42 per

<sup>7</sup>According to U. S. Commerce Department figures, the foreign trade of the entire Soviet bloc in 1954 accounted for only 2.2 per cent of a world total valued at \$152 billion.

<sup>8</sup>Foreign Operations Administration, *Sixth Report to Congress on Mutual Defense Assistance Control Act of 1951* (June 1955), p. 16.

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cent of promised deliveries. Latin American orders placed under the agreements did not come up to Russian expectations.<sup>9</sup> Purchasers in Latin America and elsewhere complained that many Soviet products were of poor quality.

However, the Soviet Union apparently has made determined efforts to meet demands of potential customers in non-Communist countries. Permanent Soviet trade missions have been established in several countries, and increasing numbers of Soviet technicians are being sent to less developed nations.

#### **ABILITY OF SOVIET UNION TO SUPPLY TECHNICAL AID**

In the field of technical assistance the Soviet Union undoubtedly has developed a sufficient reserve of trained manpower to compete effectively with the West. Training of scientists, engineers, and other technicians has been a major objective of the Soviet government. The first five-year plan in 1928 gave high priority to technical training at all levels to meet demands created by the forced expansion of Soviet industry, and successive Soviet budgets have allocated ever-increasing amounts for this training.

According to Chairman Lewis L. Strauss of the U. S. Atomic Energy Commission, Russia is now outstripping this country in training engineers and scientists. Strauss has said also that the quality of Soviet instruction is increasing steadily, and that within five years the technological lead of the United States may be wiped out.<sup>10</sup>

Between 1928 and 1954 the Soviet Union graduated some 620,000 engineers, as compared with 480,000 engineering graduates in this country. Soviet industry is able to absorb all available technicians and scientists, but Moscow has not hesitated to divert technical personnel to projects in foreign countries whenever it considered such action useful to itself.

Although not more than a few hundred Soviet experts have been used so far for technical assistance programs in non-Communist countries, there are clear indications that the number will be increased substantially in the next few

<sup>9</sup>The Argentine-Soviet trade pact called for an exchange of \$75 million worth of goods each way, but in 1954 Argentina purchased only some \$13.5 million of Soviet products, while Russia bought \$62 million of Argentine products.

<sup>10</sup>Address before the Thomas Edison Foundation Institute, East Orange, N.J., Nov. 21, 1955.

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years. In 1954 the Soviet Union contributed for the first time to the United Nations technical assistance program, and last year it began to offer Soviet experts to a number of countries in Asia, Africa, and the Middle East. India, Burma, and Afghanistan already have employed Soviet technicians through the United Nations, as well as under bilateral agreements, and other countries have been negotiating for Soviet help on specific projects.

Moscow recently proposed an exchange of diplomatic representatives with Liberia, the West African republic which has close ties with the United States. A Soviet delegation which attended the inauguration of President Tubman in Monrovia was reported on Jan. 3 to have offered technical and economic assistance to that country for its long-term development program.

#### **FREE WORLD'S CAPACITY FOR ECONOMIC COMPETITION**

By every standard of measurement, the economic capacity of the free world overshadows that of the Soviet Union and the entire Communist bloc. Last year the economy of the free world as a whole surged to new high levels in total production of goods and services, in the rates of industrial production, and in volume of trade within and among the free nations.

The United States and Western Europe led in the general economic gains of 1955, which were shared in some degree by almost every country. Industrial production in Western Europe and the United States surpassed all previous records. The United States topped its own record steel output by producing 117 million tons, about 40 per cent of total world production and nearly 2½ times the Soviet output of steel.<sup>11</sup> But not all countries shared equally in the gains; rate of growth and levels of production varied widely in different areas.

The general prosperity of the West was not duplicated in the less developed countries of Asia, Africa, and the Middle East. There were increases in production in many underdeveloped states, and most Asian countries were able to show some rise in national income. However, virtually all of the Asian nations continued to live at bare subsistence levels with expanding populations that consumed

<sup>11</sup>Soviet steel production, estimated at about 49 million tons in 1955, also continued to show an impressive rate of growth.

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most, if not all, of the increase. In some countries population growth was greater than the rise in national income.

A chief source of income for the nations of South Asia has been the sale of surplus raw material and agricultural products on the world market, and the region as a whole has been dependent on foreign trade for the funds needed for industrial equipment not obtainable in the area. In the past most of the raw material exporting countries have found their best markets in the industrial nations of the West, and in times of depression they have suffered severely from sudden declines in the volume of their exports and accompanying declines in value.

The United States, with large agricultural surpluses of its own, has not been in a position to absorb the surplus products of other agricultural states trading in the world market. Nor has it been able to dispose of its own surplus wheat, cotton, and other crops in foreign countries without opposition from other producers. The *Financial Times* of London recently observed that the United States was in a particularly weak position to compete with the Soviet Union in offering markets "for other people's surplus products." It suggested that Russia's strongest trading asset is perhaps America's most vulnerable point.

In the field of economic and technical assistance the United States and the western powers have been in a far stronger position than the Soviet Union. Most, though not all, of the underdeveloped countries have welcomed western aid in developing their limited resources. Virtually every independent country in Asia and the Middle East has been striving to raise its standard of living by increasing agricultural production and the rate of industrial development. All have adopted ambitious programs of land reform, irrigation and reclamation, power development, transportation, and public health. But all have faced difficult economic and financial problems that cannot be solved without assistance from industrial nations; the kind of assistance they most need has been available until recently only in the West.

#### **BASIC NEEDS OF ASIAN AND MIDDLE EAST COUNTRIES**

When the independent nations of South and Southeast Asia and the Middle East have sought to increase production, they have been confronted by (1) a need for capital to carry out development programs, and (2) a need for

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technicians and skilled workers to construct and operate industrial plants, dams for irrigation and power, and modern transport systems. No country in the area has been able to meet such needs without outside help from foreign governments, private industry, or international organizations like the United Nations and the World Bank.

Lack of capital for development purposes has been a retarding factor in all the countries, with the exception of the oil-rich lands of the Middle East, which have been able to accumulate investment funds from the revenues derived from foreign-owned and operated petroleum companies. India, Pakistan, Burma, and other nations of South Asia have made determined efforts to raise their national incomes, and most of them have made significant gains during the last five years. But the increase in national income has been barely sufficient to offset the rise in population, and insufficient to produce the savings required for capital investment purposes.

India financed its first five-year development program largely from public and private funds raised within the country. About 85 per cent of the total outlay (\$4.3 billion) has come from Indian sources. Around 60 per cent was contributed by the Indian government, with some 25 per cent coming from internal private investments and 15 per cent from foreign loans and grants.<sup>12</sup>

Foreign financial aid for the Asian countries has been supplied chiefly by the United States, Great Britain and other Commonwealth countries, and the World Bank. Government loans and grants have provided most of the funds flowing into the area, although private investments have been an appreciable factor in a few countries such as India and Pakistan.

Most of the nations of Asia and the Middle East have been glad to receive technical aid from the United States, the British Commonwealth countries, and other western states, either directly or through the United Nations technical assistance program. A few of them, however, had been dickering with the Soviet Union for technical assistance well in advance of the recent Bulganin-Khrushchev tour, and one or two of the newly independent countries

<sup>12</sup>For economic development in India under first five-year plan, see "Aid to Asia," *E.R.R.*, Vol. I 1955, pp. 69-71.

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had balked at continuing to accept technical aid directly from the United States.

Burma canceled a technical assistance agreement with the United States in 1953, and Indonesia has been unwilling to accept any substantial amount of American aid. Other Asian countries also have shown some reluctance to take help from the United States for fear that American aid would have strings attached. In fact, fear of involvement in American military commitments, such as the Southeast Asia defense pact,<sup>13</sup> served Bulganin and Khrushchev as their most effective propaganda weapon against the United States and the West.

A fortnight after the Soviet leaders departed, the Indian government signed a new \$10 million economic agreement with the United States that will provide 100,000 tons of steel products for Indian railroads. The accord, announced Jan. 5 on the fourth anniversary of the U. S. program of loans and grants to India, afforded Asian countries an opportunity to compare Soviet promises with the record of western performance in economic and technical aid.

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### **Balance Sheet of Foreign Aid in Key Areas**

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COUNTRIES of Asia and the Middle East generally have measured the value of foreign aid in terms of the results achieved or expected from specific programs which have a direct bearing on their own development plans, rather than in terms of global dollar expenditures whose relation to their immediate needs may not be apparent. They have watched particularly the results of major development programs in India, the largest democratic country of Asia, which has accepted technical assistance from both the West and the Soviet Union while striving to remain aloof from political alignment with either power bloc.

Foreign assistance received by India during the period of its first five-year plan (1951-1956) has come entirely from western sources. Grants and loans from foreign gov-

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<sup>13</sup>Pakistan, Thailand, and the Philippines are the only Southeast Asian countries which have adhered to the Southeast Asia Treaty Organization, established Sept. 8, 1954, with the United States, France, Great Britain, Australia, and New Zealand.

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ernments and the World Bank amounted to \$645 million, of which the United States provided about \$445 million (\$235 million in loans and \$210 million in grants for technical assistance projects). The World Bank found India a sound risk and extended seven loans totaling \$126 million. Three British dominions (Canada, Australia, and New Zealand) made direct grants aggregating \$68 million, and the Ford Foundation contributed \$5 million for technical education programs. Norway contributed nearly \$1 million to a joint technical project.

In addition to government aid, private foreign investments in India increased by about \$319 million during the five-year period that ended in December 1953, with British capital representing 90 per cent of the total and American capital about 8 per cent. During the last two years several American firms have made large capital investments in India. The Standard Vacuum Oil Company has built a \$35 million refinery in Bombay, and the Caltex Company is constructing a \$26 million refinery at Vishakhapatnam.

Government aid and private investment have enabled the Indians to carry out major development projects ahead of schedule, and to achieve 87 per cent of the goals set in 1951. Although India has been moving toward a Socialist economy, the government has continued to emphasize the need for both public and private undertakings. It has encouraged domestic private enterprises to expand productive capacity and has sought actively to attract private capital from foreign countries. Indian laws place no restrictions on foreign capital that are not applicable to domestic capital, and foreign concerns like Caltex and Standard Vacuum have been given guarantees against nationalization.

Russians made no contribution to India's first five-year plan but have offered technical assistance for the second five-year plan, which will be launched in April. However, a joint Soviet-Indian communiqué issued Dec. 13 was vague; it stated merely that the new plan might "reveal further opportunities of cooperation" between the two countries.

India's second five-year plan contemplates total outlays of almost \$10 billion, as compared with \$4.3 billion under the first plan, and the need for investment capital consequently is far more pressing. The Indian finance minister has estimated that about \$3.1 billion in foreign exchange will be required from all sources—foreign trade balances,

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loans, credit, public and private investments and foreign government grants. Only about one-half of that total is now in sight, leaving a prospective deficit of approximately \$1.6 billion. The Indian government has not confirmed reports that it might seek a large loan from the United States, but it has made no secret of its continuing need for capital, particularly in the field of industrial development.

#### TECHNICAL ASSISTANCE FOR STEEL DEVELOPMENT

Steel is a vital factor in India's industrial development program. The country now produces about 1.5 million tons of steel annually and will seek to raise the output to nearly six million tons a year during the second five-year plan. India's two largest private steel companies are building new plants, and the government is planning to construct three additional steel mills with technical aid from abroad.

In the private sector of the economy the Tata Iron and Steel Co., which has a current capacity of more than a million tons a year, has contracted with an American company to build a new plant designed to raise Tata's output to about two million tons. Tata signed a contract last November with the Henry J. Kaiser Co., under which the American concern is to design, build, and procure the equipment for new facilities estimated to cost \$130 million. The Indian Iron and Steel Co., second largest private concern in India with a capacity of about 500,000 tons, received a loan of \$31.5 million from the World Bank in December 1953 to expand its present facilities. Work is now nearing completion.

In the public sector of the economy the Indian government has negotiated both with the Soviet Union and western countries for construction of three large steel plants, each to produce a million tons a year. An agreement was signed with the Soviet government a year ago under which Russian technicians were to plan, and later construct, a complete steel mill at Bhilai at a cost of about \$315 million. The plant was to be completed in 1959, but no progress report on the project was forthcoming during the Bulganin-Khrushchev visit to India. However, Soviet news dispatches reported that some 300 Russian technicians were expected to arrive in India early this year.

Construction work is well advanced on the second government steel plant, which is being built at Rourkela by a

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German combine, Krupp-Demag, in cooperation with the Tata company and the Indian government. Both Tata and the German concern are training 1,700 Indian workers to operate the plant, which is expected to be in production by the end of 1958.

Negotiations for construction of the third government steel plant have been proceeding for some time with a British consortium which has submitted engineering plans for a plant in West Bengal to cost about \$231 million. A British mission visited India last November, but differences over credit arrangements have delayed signing of a contract. However, Indian authorities said they hoped construction could begin by the end of 1956.

The ability of the Soviet Union—and the western countries—to carry out their respective agreements is being watched not only in India but also in other parts of Asia. In measuring Soviet promises against western performance, Asian nations at the same time have been following closely a regional program, known as the Colombo Plan, which has been promoting economic development in the area.

**REGIONAL COOPERATION UNDER THE COLOMBO PLAN**

The Colombo Plan was launched in 1950 under British initiative as a cooperative enterprise to encourage economic development in Commonwealth countries in Southeast Asia. The plan quickly attracted the support also of independent nations in the region, and today 12 Asian states or territories are cooperating in the work of the Colombo consultative committee: Burma, Cambodia, Ceylon, India, Indonesia, Laos, Malaya, Nepal, Pakistan, Philippines, Thailand, and South Viet-Nam. The United States has been a participating member of the Colombo group since 1951, when it joined Great Britain, Australia, Canada, and New Zealand as contributing countries. Japan became a contributing member last year.

A report submitted to the fourth annual meeting of the Colombo group at Singapore last October recorded important economic gains throughout the area. Total outlays for economic development programs amounted to more than \$2 billion in 1954, and the bulk of this development capital came from within the region; external economic aid accounted for only about 19 per cent of the total. U. S. economic and technical assistance in the member states

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during 1954 amounted to approximately \$320 million. Since 1951 the United Kingdom and the British dominions have contributed some \$460 million, as compared with contributions of about \$600 million by this country.

At the Singapore meeting all of the participating countries agreed that the work done, and the work still to be done, justified extension of the plan to June 1961. Great Britain, announcing that it would double its contribution, pledged \$19.6 million for technical aid in the year beginning next April.

The Soviet Union has not yet made a direct contribution of technical aid to any of the Colombo Plan countries although, as noted, it has promised to furnish such assistance to India and Burma in the future. Afghanistan, which is not a member of the Colombo group, has been receiving some economic and technical aid from Russia since 1951.

The Soviet offer of a long-term credit of \$100 million, made to Afghanistan on Dec. 18 during the visit of Bulganin and Khrushchev, followed the granting of a series of smaller credits to finance construction of a gasoline storage system, transport improvements, and small manufacturing plants. The announcement of the new offer, released in Moscow before the official communiqué was issued at Kabul, made no mention of the terms or the types of projects contemplated; such matters, the announcement said, would be settled in future negotiations.

Under a technical cooperation program which the United States has been conducting in Afghanistan since 1951, about \$2 million has been spent on a multi-purpose development project to expand irrigated areas of the Helmand valley. In addition, the United States during the past five years has extended loans or trade credits amounting to \$26 million.

#### **PROFFERS OF AID TO EGYPT FOR THE HIGH ASWAN DAM**

Egypt, which concluded its arms deal with Communist Czechoslovakia on Sept. 27, has received proffers of financial and technical aid for the Aswan dam project from both the Soviet Union and western countries. The proposed Aswan dam is not only Egypt's largest development project but also one of the biggest engineering undertakings of its kind in the world.

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The high dam at Aswan is designed to place under permanent irrigation some two million acres of arid or semi-arid land in the Nile valley and increase the present area of arable land in Egypt by nearly one-third. It will provide also for generation of nine billion kilowatt hours of electric power annually. The dam will create a man-made lake 330 miles long with three times the capacity of Lake Mead on the Colorado River.

Total estimated cost of constructing the Aswan dam and its power facilities, over a period of 15 years, has been placed at about \$1.3 billion. German engineers made the first technical surveys, and further engineering studies were made in 1954 by a technical and economic mission of the World Bank. The bank informed Egypt, in August 1955, that it considered the project technically sound and economically feasible. At the same time, it offered to help Egypt find ways to finance the project.

After consultations in Washington with the Egyptian finance minister, the bank last month reportedly offered to lend Egypt up to \$200 million for the first stage of the project. The United States and Great Britain also offered to grant Egypt a total of \$70 million for the initial five-year stage of the project.<sup>14</sup>

The Soviet Union seems to have made its first serious offers to help Egypt finance and build the Aswan dam during the negotiations that led to the Czech arms agreement. Russia apparently has not made complete engineering surveys, but it is reported to have offered equipment and technical services valued at about \$200 million, repayable in cotton and rice.

Egypt still has the proposals of the Soviet Union and those of the World Bank and the western powers under consideration. According to recent reports, Cairo is seeking to obtain longer-term commitments from the western group with minimum restrictions on its own freedom in placing construction contracts. The ability of the United States to make longer commitments will depend upon the response of Congress to the President's request for limited authority to obligate funds for projects requiring a number of years to complete.

<sup>14</sup>The United States offered \$65 million, Great Britain \$14 million.